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Basic Needs, Structural Adjustment, and the Cold War's End

> Foreigners have not helped us. . . . We have had many bad experiences. First the Spaniards, then the Russians and the Chinese. Now the United Nations and the French and the World Bank.
>
> Robert Klitgaard, *Tropical Gangsters*

> The economy was in disarray. It would be a big success just to get production back to where it was twenty years ago.
>
> Robert Klitgaard, *Tropical Gangsters*

> Wonderful people. Terrible government. The African Story.
>
> Paul Theroux, *Dark Star Safari*

The Search for New Models

The Vietnam War ended in 1975. In the three decades since, foreign aid has evolved into its modern form. This chapter examines the way foreign aid policy evolved through 1999. We look first at agriculture, food aid, and rural development, all antecedents of Vietnam. After a brief overview of "basic needs," we discuss the apparent about-face by the Reagan administration as it implemented structural adjustment and policy reform. Lastly, we assess impact of the Cold War on foreign policy and the lethargy that developed within the foreign aid establishment in the 1990s.

Agriculture, Food Aid, and Rural Development

Scientific farming made Americans efficient producers of food. Food aid has long been a part of foreign aid, and historically it has been used as a tool to influence foreign policy. The Green Revolution dates back to the early 1940s in Mexico and later in India, focusing on miracle grains through capital-intensive farming. With the Green Revolution, the United States had a model for agricultural development based on years of research, an effective extension support, and advanced agricultural education. Through foreign aid, LDCs became consumers of US food products on the one hand, and food exporters through US technical assistance on the other.

In 1954, with the passage of US Public Law 480, food became a major component of foreign aid policy and part of domestic subsidies for US agriculture. Food assistance, as a companion to agricultural and rural development policy, disposed of domestic farm surpluses while creating future markets for agricultural exports.

In the first ten years of its foreign aid program, the United States distributed agricultural commodities worth $1.5 billion. Food was a powerful weapon: in the postwar period, the United States seemed to have the power to decide who lived and who died when famine struck in Asia, Africa, and Latin America.

From the beginning of the postwar period, there were few interest groups in support of foreign aid with the exception of agricultural lobbyists, the Land Grant Universities, and the Farm Bureau Federation.[1] A 1957 assessment of foreign aid explained the subsidies from a domestic perspective: "It seems certain that, had large purchases for foreign aid not been made during these years, governmental expenditures under the price-support legislation would have increased markedly, and large stocks would have been acquired [and stored]."[2]

Over time, long-term provision of food aid may have been destructive to LDC agricultural economies.[3] By the end of the 1950s, much concern about foreign aid focused on the negative impact food aid on economic growth and indigenous agricultural productivity given the input of free or submarket foodstuffs into LDCs. Despite this caution, however, increased LDC food production, because of the ability of farmers to produce surpluses, should be considered a partial success for foreign aid.

Part of the rural development mission, of course, was to "break up old, economic and socially self-sufficient small village groups in LDCs." The result, as Linton recognized very early, was economic wreckage in the rural areas that was "due to fundamental incompatibility between stable, closely integrated folk cultures and an ever-changing machine civilization."[4]

Issues have not changed. According to a 2002 *New York Times* article, "The criticism has nothing to do with famine relief, but with American farmers selling their subsidized grain below cost to the rising middle class overseas, much like countries that the United States accuses of dumping their under priced steel here."[5] Beyond food production, however, impact on rural development in the 1950s and 1960s was minimal; nor were conditions much improved in urban areas.

Rural development failures meant widespread migration to cities. For those living in LDCs in the 1980s, although urban employment was "better than what a rural farmer makes, but basically what a $200 a month job does is it provides a person with maybe an office, telephone (which in many countries does not work anyway), and a place of operations where they can conduct their own private business."[6]

The Shift to Basic Needs

In the late 1960s, the World Bank's strategy for reducing poverty came to include what was called meeting *basic needs*—targeting the poorest of the poor. Economists recognized that growth strategies and commercialized agriculture would do little to address the causes of poverty. By the mid-1970s, food aid and development had become a central focus of the debate over what was to be called "integrated" rural development—combination of technical assistance to farmers with the delivery of social services to rural villages. Integrated rural development was a center point to the basic needs approach advocated by the World Bank.

Robert McNamara brought his basic needs and Keynesian planning focus with him from the Department of Defense to the World Bank in late 1967, where he "implemented a system of annual lending quotas that is still in existence."[7] Both basic needs and rural development were keystones. Although meeting basic needs was a World Bank approach, USAID readily accepted it as a priority. President Jimmy Carter (1977–1981) adopted basic needs as part of his policy.

Basic needs goals were sometimes defined differently because "the content of the bundle of goods and services that satisfy basic needs varies from one country to another, [although] there is a common core that includes nutrition, education, health, water and sanitation, and shelter."[8] Pinpointing the meaning of basic needs has been a perennial problem in international development.

Basic needs policy developed out of a concern for poverty within the Congress and among development experts, not to mention the rising influence of foreign aid policy from Third World nations through their calls for a New International Economic Order—the idea that developed countries were obligated to help the poor countries because of past wrongs such as slavery, underdevelopment, and colonialism. Under basic needs, the Congress directed that future bilateral assistance focus on critical problems that affect poor majorities, including food and nutrition, population planning, education and health, and human resources development.[9]

In many poor countries, public investment programs in basic needs, small-scale agriculture, and integrated rural development were overwhelmingly the aggregation of what individual donors wanted to finance. Results often were poorly designed public investments in rural industrialization. There was too little attention paid to peasant agriculture; too much public sector involvement in areas where LDCs lacked technical, managerial, and entrepreneurial skills, and there was too little capacity and effort to foster grassroots development.[10]

Major donors found linkages between social service delivery and technical assistance for increased productivity difficult to achieve. Specifically, donors could not program through "forward and backward linkages" that could displace one of the most crucial aspects of rural development—*institution building*—something normally not subject to tight programming.[11]

As Robert Cassen pointed out, very little aid, even food aid, had been "directed at or had any effect [positive or negative] on the very poorest people, though these people appear to have gained indirectly from aid projects that reduced their food costs."[12] Despite the efforts of rural development specialists, there was little progress on the production of grains and tubers throughout the developing world—plantains and tubers in Africa, potatoes in Andean South America, or rice in Southeast Asia. By 1987, one study found close to half of the completed rural-development projects financed by the World Bank in Africa had failed.[13] Agriculture projects alone failed one-third of the time in West Africa and half the time in East Africa. "The main empirical result," as Paul Mosley pointed out, "is a negative one, namely that there appears to be no statistically significant correlation in *any* post-war period, either positive or negative, between inflows of development aid and the growth rate of GNP in developing countries."[14]

The basic needs programming roughly ran from 1970–1980, though some components of the policy linger on. By the early 1980s, a shift in development priorities away from the integrated social service and rural development models began, though concerns with agricultural development remained. After 1983, except in human or natural crisis areas, basic needs were no longer a priority.

A US-initiated Africa Food Security Initiative (AFSI) in the 1990s, stimulated by chronic drought and starvation on the continent, showed renewed support for some basic needs principles because AFSI was to reduce prenatal and childhood malnutrition by increasing rural people's incomes.[15]

Criticism of US food policies continues today. As a *New York Times* report notes: "In Rome, at a United Nations conference on hunger, developing countries pointed . . . to the huge new subsidies to American farmers as one of the biggest obstacles to creating vital opportunities for their

own farmers and enabling them to climb out of poverty."[16] We will return to this issue when we discuss trade issues in Chapter 11.

The Poverty Debate

From 1948 through to 2009, two views about the nature of poverty within the donor community predominated. One view sees the origins of poverty as endemic to LDCs, caused by indigenous cultural norms, lack of education, poor political leadership, or poor economic and social policies, not to mention corruption as a central problem. International donors often blame fraud as the reason for donor fatigue both among legislators and the public.

The other view sees poverty as part of a malfunctioning global system. From this perspective, "[n]early half a century after colonial empires began to crumble and dozens of new countries were born with high hopes of ending dependency and deprivation, a significant number of those nations have seen growth stall and desperate poverty grow instead."[17] Critics blame unfair global economic endowments and comparative advantages. Following from this, dependency theorists conclude that the vested or class interests in LDC governments are often hostile to the development values and strategies of experts called in to advise them.

The problem according to the American new left was that foreign aid programs were not really designed to help poor countries or their people catch up with their rapidly growing needs. At best, foreign aid was little more than a palliative, Band-aids applied to serious wounds. At worst, foreign aid was a charitable red herring designed to divert the attention of developing world leadership, while permitting powerful more developed country economic interests to increase their hammerlock on the global economy.

Neither polar position captures the complexity of global poverty. Many of the significant disagreements about poverty are ethical and philosophical. One issue involves the responsibility of the international community to poverty alleviation because the search for poverty reduction may find it is the internal dynamics of a LDC that have to be addressed. A related issue involves individual responsibility and how that intersects with the nation-state system and global economic processes.

Other ambiguities revolved around what basic needs should be provided either by the state, or failing that, by the donor community. Increasingly, critics concluded that to define an absolute income poverty line, one should begin by trying to understand what the important needs, requirements, or capabilities of human beings are.

Despite the definition and standards defined by the international donor community, there are wide divisions as to how to measure poverty. The World Bank often uses a formula based on one US dollar per day as a minimum. The so-called dollar-a-day *threshold* was based on what a single dollar buys at 1990 prices. The future is adjusted for differences in prices among less-developed countries. To its critics, the World Bank based its calculations on things that most poor people could never afford to buy. An alternative approach is *prioritization*—any measure should place greatest weight on the economic plight of the very poorest people.

There is a middle position: *selectivity,* suggesting that aid should be given only to countries adopting sound economic, good governance, and democratization policies. Foreign aid, other than humanitarian assistance, should be withheld from countries that are undemocratic or are making little effort to tackle corruption.[18] If that middle position is found, according to one observer, "Something more momentous may result, perhaps an alliance between liberals and conservatives to launch a fresh assault on global poverty using less softheaded approaches than in the past."[19] It is the selectivity argument that would later be adopted in the Millennium Challenge Account (MCA), a program we discuss in Chapter 13.

Policy Reforms and Structural Adjustment

Reagan's New Foreign Policy Agenda

When President Ronald Reagan came to office in January 1981, he launched aid policy reforms that would define his presidency internationally. By the early 1980s, the internal origins thesis of poverty predominated in the US donor community. Reagan administration economist John Williamson coined the term "Washington Consensus" to describe a shift in American foreign aid policy away from the global dimensions of poverty.[20] It was a short step from there to a focus on policy reform, structural adjustment, and international financial stability.

During the first Reagan term, foreign policy shifted to Central America and to anti-communist proxy wars in Africa. In his rhetorical stance, Reagan distanced himself from the internationalism of previous administrations, creating a kind of "prophetic dualism" based on unilateralism in foreign aid and foreign policy. The focus on policy reform demonstrated that realism:

- return to support for economic growth, particularly in Asia,
- new emphasis on democracy and governance, except where Cold War concerns required support for authoritarian rulers
- concern for access to energy and other natural resources

Above all, the struggle was to contain and roll back international communism. Foreign aid became a vehicle.

To its critics, the Reagan administration came to personify the arrogance of erratic unaccountable power, the disasters of Cold War intrigue, and proxy wars in marginal nations.[21] The Reagan administration to its critics was marked by its appeals to fear and selfish motives: nowhere was this more clear than in the intervention in Central America, particularly assistance to the anti-communist Contras in Nicaragua.

Throughout the Cold War, there had been elements of unilateralism in US foreign policy. The Reagan years saw a surge in unilateralism that would be the basis of post–September 11 responses to international relationships by neoconservative policy analysts, many of whom garnered foreign policy experience under Reagan.

Reagan and his successors directed foreign aid at middle income Asian countries presenting good opportunities for success. Private investment followed. The Asian successes would later be identified as justification for MCA. As Stephen Greenhouse pointed out, "Not surprisingly, the lion's share of new investments has gone to some referred to as 'middle class' countries—like South Korea, Mexico and Argentina—many of which were avoided by private investors a few years ago because of their debt crises and economic policies."[22]

In the 1980s, the United States shaped foreign aid to encourage energy efficiency, renewable energy, and natural resource management. Its overseas face, however, did not always complement its energy and environmental policy at home.

Democratization was part of the new foreign aid process. In some places it was an important element, and even took on what Reagan called a "moral imperative." Failure of democracy, Reagan officials argued, could lead to conflict, and ultimately the likelihood of millions of refugees, many of whom would eventually find their way to the United States and other developed countries. In reality, for some critics, democracy and governance seemed to take second place to economic reforms and the free market.

More than anything, the Reagan administration would reshape foreign aid to address international debt and the way it was treated by financial institutions. Four sets of interrelated reforms were developed: *debt, structural adjustment, conditionality,* and *privatization.*

Debt, Structural Adjustment and Privatization

Debt was a critical factor in aid debates as early as the 1960s. "When the 1960s are compared as a whole with the 1950s, if one uses aggregate balance of payments statistics, the main accomplishment of this increase in development loans and grants appears to be a tidying up of the Brazilian foreign debt."[23] By 1970, the debt burden in many developing countries had become an urgent problem that had been foreseen but unfortunately not addressed at that time.[24] By 1980 LDC debt was a top priority for donors.

Debt crushed LCD economies, and debt management dealt a crippling blow to many countries, especially in Africa. Africa at the time spent close to four times as much servicing its debt as it did on health and education and paid out more in interest on the debt than it received in trade, foreign aid, and other forms of financial transfer. For critics, indebtedness made foreign aid to many countries close to meaningless. There were almost no prospects of escape from debt.

The year 1981 is an important one in the history of foreign aid: Robert McNamara stepped down at the World Bank. International development policy began to focus on structural adjustment and public sector reform and away from basic needs and rural development. Jamaica became one of the first countries to come under *structural adjustment.* Structural adjustment consisted of seven reforms:

- Fiscal discipline
- Reordering and reducing public expenditures
- Tax reforms
- Trade liberalization
- Liberalization of foreign investment
- Privatization
- Deregulation

Under structural adjustment reforms, what was needed to complete "the top down reforms [was] a new class structure with an empowered and diverse bourgeoisie made up of business men and women."[25] From this perspective, middle class "control of the government or the state must therefore be, and is, a fundamental issue in [debates about] the orthodoxy of 'dependence' analysis."[26] Structural adjustment meant that neo-orthodox versions of free market capitalism had become the global norm in foreign aid. Foreign aid would be given to countries that were both well governed and had adopted market-oriented economic policies to provide a boost to their development.

The goal of structural adjustment policies was to open up a country's domestic economy and move it away from indigenous, import substitution commodities toward imported goods, services and investments. According to the Reagan administration, structural adjustment policies supported by the IMF and the World Bank would allow debtor LDCs to grow out of debt.

Specifically, structural adjustment called for reforming the Washington Consensus in a way that tied development money to structural adjustment conditions, including market deregulation, privatization of state-owned enterprises, reduction of the size of government, and trade liberalization by recipient countries. The way foreign aid loans were used was important. According to Robert Cassen, "Aid receipts were once thought to be associated with reduced domestic savings, but some recent research which distinguished aid for consumption from that used for investments—as most other studies failed to do—found that countries with higher investment-aid receipts did achieve relatively high domestic savings rates."[27]

Under structural adjustment, donors adjusted loans and allowed LDCs to borrow more money to pay back loans. According to Frank Conahan, "The United States frequently conditioned its balance-of-payments assistance in recipient countries by requiring them to obtain and/or comply with [International Monetary] Fund programs."[28] In most collapsed states, not only was the debt crisis severe but also much of the foreign aid never arrived. Foreign aid designed to structurally adjust LDC institutions often disappeared to overseas creditors and international contractors.

During the 1980s, rather than training public managers and supporting government programs, as was the case a decade before, donors trained business managers and entrepreneurs, and supported regional and national business councils, as well as civil society organizations. Often, they used the same bag of tricks as they had to support public sector activities since the 1960s.

In both the public and the private sectors, management skills continued to be the weak link in the development policy chain. What transformed the picture under structural adjustment was "dividing countries according to the quality of their economic policies."[29] Changes in these economic policies became a second component of the Reagan foreign aid revolution.

Conditionality and Policy Reform

Structural adjustment, as practiced by the United States, was based on *conditionality* and imposed on LDCs in three ways: *condition precedents,* actions the United States requires a recipient government to take before disbursing aid; a *covenant,* actions the United States requires a government to take before, during, or after assistance is provided but is not tied to the disbursement of the funds; or a *prior action,* an understanding—not written in any formal agreements—about actions the host government will take prior to the disbursement of aid.

Policy reform advocates assumed that conditionality was essential to foreign aid success and would only have a major impact after countries progressed in reforming their institutions and policies.[30] Direct attempts to improve living standards would succeed but only if fully implemented under policy reforms. There were complications. In the late 1980s, according to Stanley Hoffman, numerous LDCs continued "to face the problem of the debt . . .; here what [was] needed, in the short term, [was] extensive relief measures that [would] allow developing countries to concentrate on exports and to afford imports, rather than having to spend their resources on servicing their debt."[31] It was up to the multilateral organizations and large bilateral donors to set conditions for debt servicing adjustments.

Ownership and competition were critical. To advocates of structural adjustment in the Reagan administration, central planning had impoverished millions of people. Structural adjustment redefined the way LDCs looked at development. Questions were familiar: What, we ask ourselves, should we strive for? "Regrettably," according to one critic, "it has long been a convenient notion to identify development merely with economic growth."[32] One of the architects of privatization said: "For developing countries to achieve rapid growth in today's global economy, they must embrace private, rather than state, ownership of business. They must be receptive to foreign trade, technology, ideas and investment, and they must have governments that accept the rule of law and curb corruption."[33]

At a policy level, the United States appeared to place a high priority on the development and implementation by the LDC of effective and efficient economic growth policies. The United States and its European partners opposed what the Organization for Economic Co-operation and Development (OECD) called inappropriate subsidies, price and wage controls, as well as prohibitive tariffs, overvalued exchange rates, and interest rate ceilings. Of concern was interference with market solutions that would impede economic performance.

Structural adjustment conditionality also targeted public service, as well as rule of law and property rights. By the 1990s, structural adjustment conditions included demands for stable and democratic political institutions, decentralized governance, and the acceptance of the activities of civil society organizations. Weakening LDC state structures became a part of the policy reform process.

Privatization has been widely supported since 1981. According to one USAID official in the early 1980s, "It is time to shift to an emphasis on working through the private sector, both profit and non-profit . . . As we are now seeing in Eastern Europe and have seen in the past in Mexico, Spain, Asia, and elsewhere, political weakness leads to fundamental [policy] reform."[34] Privatization was central to the reform process in Greece, Turkey, Portugal, Spain, and Ireland, essentially started under the Marshall Plan and continuing through the 1980s.[35]

The question asked by some critics was should countries that had bad policies simply be left to their fate? According to NGO advocates, by no means should they be abandoned.[36] Donors should still help by spreading development knowledge through the intercession of NGOs. In addition, social support projects should be given to NGOs in this situation, but no money should to be given to the corrupt state. Beyond this, however, there should be no support directed at state structures prior to the implementation of policy reforms.

Privatization and contracting out each became an increasing part of foreign aid in the 1980s because of ideological compatibility with structural adjustment and because of the impact of domestic US personnel ceilings under Reagan. Delegation of authority for foreign aid to international and national private sector for-profit and NGOs created opportunities for advisers to play multiple, sometimes conflicting, and ambiguous roles. As a result, they were able to facilitate, frustrate, or even damage the processes of development and nation-building. While undertaking activities that serve their personal and/or their professional interests, such advisers may have inadvertently undermined key developmental goals.

The carrot offered for policy reforms and donor conditions was the Heavily Indebted Poor Country (HIPC) program.[37] HIPC and social and municipal funds targeted at the delivery of services were meant to address hardships imposed by policy reform—structural adjustment with a human face. HIPC allowed LDCs to use debt payments for economic and social development activities, thus reducing their debt obligations. Debt burden of poor countries came about because of lending by the International Monetary Fund, the World Bank, bilateral donors, and most importantly, private banks seeking bailouts on their loans. At the same time, self-serving aid or misinformed donor agents often gave LDC policymakers and the public false hopes because the message of structural adjustment was that the reforms advocated were a ticket to economic growth and development.

Economic development and policy reforms depended on a country's institutional and political characteristics. LDCs may have good macroeconomic policies as a result of structural adjustment initiatives, but ineffective public service delivery and democratic governance mechanisms. If there was a will to correct this problem, then assistance was possible. In such circumstances, assistance should be directed at the creation of an effective public sector. Public sector development was often difficult. When not possible, bilateral donors should be more willing to cut back their financing to countries with consistently low-quality public sectors.

Critics suggested that victims of structural adjustment were the poor and, perhaps, elements of the middle class. As Frank Conahan puts it:

"Reductions in government spending usually result in cutbacks in expenditures for power plants, roads, education, and other infrastructure investment. Complementary private-sector investment dependent on public investment may also be cut."[38] Nonetheless, the main lines of structural adjustment continue to define aid policy.

Toward Mediocrity

While it appeared that the Reagan administration had introduced a new foreign aid policy, for many critics, reality was somewhat different. From a fiscal perspective, there was continuity to foreign aid from 1965 through to 2000. It took the shock of September 11 to jolt the United States out of its complacency and standard operating procedures in its international assistance policy. It is to that continuity that we now turn.

Donor Fatigue

By the late 1960s, aid flows produced a complex web of large and competing bureaucracies in Washington, within recipient states, as well as a diffuse spectrum of policy objectives and expectations.[39] Organizationally, USAID has often been a part, albeit a minor part, of the endless interagency struggle for control over the foreign and security policy process: Over the years, USAID has been worn down by criticism from the executive branch, Congress, press, and public, not to mention LDCs and fellow donors.

There is a determinism to the aid institutions relating to tasks, environment, and organization. Aid bureaucracies have fragmented authorities that function within a complex system, making policies unstable and inflexible. Organizational weakness and duplication of effort is a reality. As John Franklin Campbell pointed out years ago:

> A desk officer of State, who follows U.S. relations with one small African country, has recently calculated that while in theory he is the focal point of all Washington efforts concerning "his" country, in fact there are sixteen other people in Washington just like him, working on the same country in different chains of command.[40]

Beyond this are the numerous task forces our foreign service officers participate in. These are designed to bypass normal bureaucratic processes but they increase duplication and complexity of aid processes. It was the complexity introduced by the conduct of the Vietnam War that shaped

the future of foreign aid and foreign and security policy for the next forty years.

To its international critics, Vietnam had caused the "collapse into nightmare" of the American Dream, what Booker called the "most powerful image of the twentieth century."[41] The Western world reeled at the collapse of US Vietnam policy: "Above all, [the Vietnam War] consumed the nation [the United States] in anger, disillusion and self-doubt. Shock waves generated in the 1960's never fully abated, and appear today in the rhetoric of political correctness and neoconservatism."[42]

By the late 1960s, donor fatigue had set in. There were calls for more collaboration in organizing foreign aid. Esman and Montgomery called for "joint teams of host national and American professionals to administer innovative and experimental development activities."[43] Little came of these suggestions.

The weight of LDC debt exacerbated donor fatigue in the 1970s. As costs of servicing old loans increased, commercial lending decreased drastically, and foreign aid fatigue hit donors, primarily in the United States.[44] Increasingly, as Martin Wolf noted: "There were . . . skeptics about aid, among them Peter [now Lord] Bauer. But his arguments made him something of a pariah. Experience proved chastening. Academic studies confirmed what practitioners could see with their own eyes; there was no connection between aid and alleviating poverty."[45]

By the middle of the 1970s, foreign aid was based in large part on strategic and ideological concerns rather than on developmental considerations as the Cold War deepened. Perceived problems with the Vietnam War and its ignominious end rubbed off on development assistance.

LDC population growth was a factor in donor fatigue because "[n]o other phenomenon, the Pearson Commission [the 1968 World Bank Commission on International Development chaired by Canadian Prime Minister Lester Pearson] said, 'casts a darker shadow over the prospects for international development than the staggering growth of population.'"[46] Foreign aid in much of Africa, Latin America, the Caribbean, and parts of Asia and the Middle East remained ineffective, and until the HIV/AIDs pandemic intervened in the 1990s, LDCs overall had very high population growth.

The gap between what policymakers decided to do and what bureaucrats did had widened to a chasm by 1970.[47] Foreign aid policy was as much a bureaucratic process as it was a political product, as Edward Horesh notes, "[w]ithin the bureaucracy itself, different departments of state have different interests and that political and policy debate is carried out within these departments and between them."[48]

Richard Nixon's Task Force on International Development of 1970, led by Rudolph Peterson, chairman of the Bank of America, recommended that a series of specialized agencies replace USAID, greater use be made of multilateral organizations, and a more relaxed and flexible approach to development management be taken. As Peterson noted in March 1970:

> The international organizations could roughly double their present rate of lending—from $2.5 billion a year to $5 billion a year—over the next several years while continuing to follow sound practices and maintain high standards. An increase in International Development Association [IDA] lending is critical to establishing an international framework for development. In view of the debt-servicing problem in a number of the developing countries, concessional lending on IDA terms is badly needed. Furthermore, IDA lending is the foundation for international participation in some of the major development programs.[49]

No action was taken on the Peterson recommendations, though under President George W. Bush there was a tendency to hive off development functions to agencies outside of USAID.

Every year from 1970 on, Congress would slash USAID's budget and often would threaten to abolish the organization as a separate entity. For the next thirty years, appropriations for foreign aid continued to decline. Despite this, policymakers were not able to admit that the United States lacked the resources and the will to do more for LDC social and economic development. Discussion of reforms in foreign aid began again in the early 1970s. By then, foreign aid, and foreign policy processes more generally, had become seriously outdated. This meant that more than two decades of institutions, procedures, and personnel operated relatively unchanged in a changing world.[50] As a result, "Disenchantment with foreign aid [was] shared by both donor and recipient countries. . . . [One can see] some of the sources of this [negative] mood in the case of one large country, Brazil, which during 1964–1967 ranked only behind India, Pakistan, and South Vietnam as a recipient of net official aid flows."[51]

By the middle of the 1970s, USAID suffered from both overadministration and excessive expansion; however, by 1975 the United States and a number of other donors had lost confidence in the ability of foreign aid to promote economic and social development.[52] During the next decade, this confidence weakened within USAID and among the major bilateral donors. The result was annually reduced budgets for both bilateral and

multilateral agencies despite suggestions that multilateral assistance would be a better option development.

In the middle of the 1970s, a Carnegie Foundation Report called aid programs "lethargic, negligent and crippled by bureaucracy."[53] By 1975, USAID was weak and in trouble. It had no domestic champion and had become a whipping boy of Congress. Implications of this sobered those who advocated a role for international assistance within foreign policy. This refocused debate on foreign aid policy toward organizational imperatives.

There were characteristics of USAID that were unique in their impact on international assistance. As Judith Tendler wrote in 1975, "although the agency's [USAID] organizational environment was more conducive than most to adaptation and innovation, criticism of its performance has often focused on its unadaptive and uninnovative behavior."[54]

During the 1970s, the United States and other donors openly and cynically traded aid for political support; however, often those using foreign aid to buy political support got very little for their aid money.[55] "This ambitious U.S. role," in the 1970s, according to Rudolph Peterson, "required a prominent U.S. presence in some countries; and friction with some governments resulted from attempts to influence sensitive areas of their national policy related to development."[56] US policies remained government-oriented, and the funds were based on the expectation that the transfer of US resources, education, and technology would bring immediate results as had occurred under the Marshall Plan. The term "graduation" date came to be laid on the mystique of a quick ending of foreign assistance.

While there was little support for government-to-government assistance, private contributions to international charities were different, and while "Americans historically have given generously to such efforts, fundraisers fear[ed] that all the calamities [both human made and natural disasters] coming together are proving to be too much of a bad thing."[57] In debates about foreign aid, the United States often complains, not entirely without justification, that "unflattering comparisons between America's aid budget and those of more generous Dutch and Scandinavians unjustly exclude private donations stimulated by U.S. tax incentives."[58]

Throughout the lesser-developed world, according to Paul Theroux, it appears that social concerns such as health, community development, and education were dealt with by foreign volunteers and technicians with little apparent involvement of LDC nationals. "Whenever I saw a town that looked tidy and habitable I saw the evidence of foreign charities."[59] Privately managed foreign involvement in social development became a fixture of domestic political life throughout the developing world.

Budgetary Stagnation and Standard Operating Procedures

In 2000, Americans remained uncomfortable with foreign aid, particularly because "most people seem to think that foreign aid accounts for 15 per cent of the budget, when it's really less than 1 per cent"[60] Lack of domestic support, according to Sebastian Mallaby, meant that of all "Washington's powerbrokers, hustlers and 'decision-makers,' the appropriators are most aware of the uneasy relationship between domestic priority and international policy."[61]

Debate about aid spending had two components. The first concerned amounts to be given. According to the Peterson Report:

> U.S. lending under such a system [was to be] be concentrated in selected countries, in selected programs—particularly in agriculture and education—and in multinational projects where long-term development is of special interest to the United States. . . . U.S. lending, however, would be made strictly on the basis of development criteria.[62]

The second focused on the choice between loans and grants. We will return to this issue in Chapter 11.

To later critics, aid administrators sometimes were caught up in their own self-promotion and in their public relations efforts designed to create an illusion of efficiency and effectiveness.[63] Internally, bureaucratization and careerism increased.

The structure of foreign aid needed to change to prevent a deterioration of conditions and to initiate a movement toward more effective approaches to international development. Lack of a strategy for institutional development is the key to many of USAID's critics. Fred Riggs has asserted, "Surely the development of institutional memories, both in developing countries and in AID itself, is an important facet of development administration."[64]

By 1969, to be sustainable, aid should have been pegged at $3 billion to promote a sustained growth at which point official aid could have peaked. This did not happen, and according to Christopher Booker, the West internationally suffered from "exhaustion and loss of momentum . . . [and a] 'fading into reality' of the collective dreams of the Fifties and Sixties."[65] To Neil Lewis, quoting a Red Cross official, "Americans 'just [got] tired of seeing starving people on television. . . . The needs are overwhelming and people who would ordinarily donate just get confused as to where to give money. . . . They end up just turning the television off."[66]

Foreign aid going to LDCs in 1970 was less than 20 percent of what the annual aid to Europe had been at the height of the Marshall Plan. Much of the assistance went in the form of loans, 90 percent of which was used to purchase equipment from developed countries and contribute to LDC debt. The rest went to purchase commodities for relief, training, and technical assistance, and it was tied to donor-designed projects. About 85 cents of every dollar of foreign aid stayed in the United States during this period.

Prior to 1980, technical assistance alone appeared a weak strategy for international development because "aid can still do little more than leave the American advisor to his own devices in this difficult area of guided social change."[67] For its advocates, foreign aid was most useful in capacity building and human resource development rather than in managing and growing the economy. In addition, aid worked best when it was introduced incrementally into countries that had developed systems and policies to manage that aid. It was this long-term and incremental process that best justifies continued support for foreign aid and technical assistance.

Allocation and management of technical assistance was not, as Paul Mosley points out, "a rational optimizing process."[68] Rather, the goal of foreign aid focused primarily on the reduction of uncertainties for themselves and their governments. Donor rules were complex. In the early 1980s, the US Foreign Assistance Act listed thirty-three separate objectives to which all US-supported projects ostensibly must conform. Sometimes these were in conflict with each other. In addition, "donor aid schemes [were] almost always expensive, top-heavy, and require[d] lots of literate administrators."[69]

International assistance, Lord (Peter Thomas) Bauer suggested, created an artificial support system. Foreign aid can be a barrier to development because it brings on a variety of repercussions that adversely affect the basic conditions for development.[70] According to one World Bank official, "Aid can make a big difference but only when there is also a domestic constituency for change."[71] Over time, however, academic criticism of the foreign aid process increased in volume.[72] By the early 1980s, donors recognized the need for sensitivity of aid officials to the stakeholder needs of their counterparts in recipient countries; however, there continued to be a gap between this recognition and the need to identify a mutuality of interests.

By rejecting the findings of the Peterson Commission, USAID became even more rigid in the 1980s and beyond. At the same time, "the . . . cumbersomely managed USAID . . . had 58.6 percent of its personnel engaged in administrative tasks."[73] This was a level of inefficiency duplicated in African states considered by specialists to be inefficient. Organizationally, foreign aid would get worse.

By the early 1980s, donor fatigue deepened further, foreign aid policymakers lost faith in the LDC state, and lethargy developed within the foreign aid policy process at the federal government level. In 1980, "[i]n the absence of a FY80 aid appropriations bill, foreign aid programs [were] being funded by a continuing resolution which maintains the monetary levels established by the FY79 bill—approximately $7.5 billion."[74]

University involvement with foreign aid became increasingly problematic. USAID, for example, reassessed its support for the Midwest University Consortium on International Activities (MUCIA) at the end of the 1960s and decided to cut back "both its funding for public administration training and for research and technical assistance in administrative reform and institution-building."[75] USAID's cooperative agreement with the National Association of Schools of Public Affairs and Administration (NASPAA) ended. By the early 1990s, university based technical assistance had declined dramatically.[76]

In the 1970s, the foreign aid budget, adjusted for inflation, fell by nearly 50 percent. Regional figures reflect these trends. Throughout the 1980s, the United States

> provided between $1 billion and $1.6 billion annually, in constant 1992 dollars, for bilateral (country-to-country) aid to Africa through a variety of programs. U.S. assistance to Africa [had] peaked in the mid-1980s, reflecting the high levels of foreign affairs spending characteristic of the period and the special attention given to famine conditions in some African countries.[77]

Aid spending declined between 1985 and 1990. By 1990, an international debate raged over the amount and the nature of donor funding among OECD countries.

Since 1985, foreign aid "has not just stagnated, but it has actually declined in real terms."[78] The long-term spending trends showed that "between 1970 and 1991 the volume of ODA [Overseas Development Assistance] rose from US$28 billion to US$54 billion (at 1990 prices). But the increase over 1970 to 1980 was greater than the rate of increase during 1981 to 1991, marked by an increase of only $11 billion."[79]

Between 1945 and 1997, the United States spent more than $1 trillion on foreign aid. Because of this, foreign aid failure rates shook policymakers. The foreign aid story in Africa was particularly bleak. Sub-Sahara Africa was the continent most dependent on foreign aid in 1990. The region had only 12 percent of the world's population but received nearly a third of the world's foreign aid, which amounted to 14 percent of black

Africa's GDP in 1987. It was by far the least-developed continent, and as the millennium approached, it was getting worse.

Toward the End of the Century

George H. W. Bush and the End of the Cold War

By 1976 the Soviet Union had declined as a military and economic power, and the United States was de facto the single superpower in the world. By that time, the United States developed a strategy, *globalism,* a form of interventionism based on the assumption that any crisis can be solved. Less clear was that, beginning in the 1970s, the source of crisis would be ethnic and religious conflict and social disruption. The Bush and Clinton administrations, despite their policy differences, provided a bridge of multilateralism in foreign aid and foreign policy that ran from the collapse of the Soviet Union down to September 11, 2001.

Throughout the Cold War, the solution to the problem of international competition with the Soviet Union was social reform promoted by foreign aid that would align LDC countries to the West; however, both isolation and globalism—that is, interventionism—shared a "moral fervor that is fundamentally theological in its origins."[80] Interventionism, and particularly unilateralism, is fundamentally isolationist in its interaction with the world. Emotionally and morally, the United States has remained largely an isolated nation, despite its alliances, since the 1990s.

Nineteen-eighty was a marker in terms of international development. By then, the Soviet bloc was no longer a significant alternative aid donor, dropping its contributions to 8 percent of the total global aid budget, down from 31 percent in 1961. As the Cold War receded, predominance in foreign aid began to move from government programs to the nonprofit and private sector. After 1989, it should have been possible to prioritize on the substantive issues of development, ignoring previous concerns of the great powers to consolidate their political-ideological camps. In reality, in the light of terrorist threats, these concerns continued to cloud both the intent and the content of development assistance.

Though Soviet power was diminished by 1985, it still largely defined foreign aid policy under both Reagan and Bush. The reason for foreign aid failures during this period, according to John Montgomery, was that policymakers "were unwilling or unable to keep track of the consequences of their decisions that had characterized their performance in . . . previous encounters with large-scale foreign policy operations."[81]

The Berlin Wall fell on November 9, 1989. With the collapse of communism, a "whole spectrum of American opinion, from Richard Nixon leftward, [was] in agreement that Russia must be helped. But wait: help means money. And where, in these deficit-cutting times, is America supposed to find that?"[82]

There would be no new Marshall Plan for Eastern Europe or the collapsing Soviet Union. The problem for the Bush administration was where to find the money. By the end of the Cold War, "aid fatigue was palpable at . . . annual IMF/World Bank meeting[s]. . . . Nobody should be surprised that the pressure to cut aid budgets has emerged so soon after the absorption of communist countries into the capitalist order."[83] For Russia and Eurasia, in particular, a historic opportunity may have been lost for some observers.

To some critics, George Herbert Walker Bush had all the makings of a foreign policy president. He had long experience in international and security policy. His people were "exceptional; he was such a contrast to the 'stand tall' and 'how we are neglected' stuff that Reagan and others spread."[84] As Stanley Hoffman put it in 1989:

> Also, the new thinking [in the George H. W. Bush administration] corresponds to a realistic reading by many Soviet leaders and experts of an international system in which the traditional Soviet mode of behavior—the attempt to impose political control and ideological conformity on others by force—yields limited results, often at exorbitant cost; in which the arms race and the logic of "absolute security" lead only to a higher, more expensive plateau of stalemate and to new forms of insecurity; and in which, in particular, the contest with the United States for influence in the Third World has turned out to be extraordinarily unrewarding.[85]

There had been little aid to Eastern Europe or to the Soviet Union prior to 1989. It was in Eastern and Central Europe that the first Bush administration had the chance to define new policies. President Mikhail Gorbachev implored the industrial nations for "extensive aid," according to Steven Greenhouse, "but they turned him down, saying his reforms were too half-hearted. Many Sovietologists said the West's failure to give Gorbachev billions in aid that he could proudly take back to Moscow was an important factor behind his downfall."[86] Failure to support Gorbachev with international assistance may have been a big mistake.

Foreign aid to Eastern Europe, however, began in earnest under the Bush administration. In 1989, the incoming Bush administration asked Congress to provide $455 million in aid for Poland and Hungary during a three-year period. Congress then voted to provide $837.5 million to the two former communist countries on a three-year schedule.[87] As the Eastern European challenge developed, "[c]aught between limited resources and philanthropic instincts, Congress [was] preparing a re-examination of foreign aid programs, but most lawmakers [were] unwilling to deal with a choice as stark as the one . . . presented."[88]

For Bush, the priority in Eastern and Central Europe was clear: in 1992, he stated: "To this end, I would like to announce today a plan to support democracy in the states of the former Soviet Union."[89] By 1992 the leaders of the Big Seven industrial democracies had committed to a $24 billion, one-year program to help move Russia toward democracy, including a contribution from the United States of nearly $4.5 billion; however, the devil in the details was the money.

A majority in Congress opposed a Marshall Plan-style approach to Eastern Europe. Thinking at the time was "with the traditional, anti-communist rationale behind much of U.S. assistance fast losing relevance . . . the government needs to rethink the goals and criteria for overseas aid or face a taxpayer revolt against the $15 billion annual bill."[90] The neglect was devastating to former Soviet bloc countries.

Interest in foreign aid to Eastern and Central Europe was short-lived. Ultimately, it was the European Union and European countries that defined the future of Eastern Europe and the former Soviet Union. The usual combination of aid, policy reform, trade, and investment, combined with carrot-and-stick policies (and no little cronyism linking donor agents with ex-communist capitalists) drew Eastern and Central Europe, outside of the Balkans, toward the European Union.

As the millennium approached, both policy elites and the public had disengaged from world affairs and become increasingly interested in domestic affairs, drugs, crime, and the legal and moral shortcomings of American celebrities, "sex, drugs and rock and roll" as the old song said. And there was the O. J. Simpson trial. As Tim Weiner noted, "Foreign aid dropped off sharply after the cold war ended."[91] In foreign policy and foreign aid, it was assumed that the "only consistent factor [was] that invariably it is the United States that sets the tone."[92] Later US involvement in Southwest Asia was based on that policy.

There had been a number of attempts to define a new foreign policy during the first Bush administration. On January 29, 1991, USAID Director Ronald Roskens invited three foreign aid specialists to chair three teams that would plan and shape the restructuring of USAID.[93] Bush's loss in the 1992 elections cut that process short, however, and little came out of these deliberations. The United States and other industrialized countries transferred fewer donor resources to official development assistance in 1993 than in any previous year since 1973, and in Eastern Europe and the former Soviet Union, the US Information Agency and later the State

Department's Bureau of Public Affairs supplanted USAID after 1996. Further cuts took place in 1994 and 1995.[94] It would be left to a new Democratic administration to grapple with foreign aid issues.

Bill Clinton

In 1993 the incoming Clinton administration encountered a US foreign assistance program largely in disarray. The Clinton administration defined five broad areas of emphasis for its development assistance: health and population control, environment, democracy and governance, humanitarian relief, and economic growth. Support for education was downplayed during the Clinton years. Despite emphasis on reinventing government in domestic policy, there is little evidence that the Clinton approaches had any significant impact on the processes of foreign aid programming or on USAID in organizational terms.[95]

At the end of the Cold War, according to Madeleine Albright, there was increasing danger that the United States would take on the role of a world policemen.[96] This appeared to occur in Somalia in 1992 when the US-led UN humanitarian intervention resulted in a brief but horrific war between the United States and one of the clan factions in Mogadishu.[97] Reaction to the failures in Somalia was immediate. The United States withdrew from the scene and left Somalia without a government and vulnerable to religious fanaticism. Using Ethiopia as a proxy, US influence returned to a severely weakened Mogadishu in 2007.

The Clinton administration's approach to foreign and security policy was hesitant and conservative. Structurally, under Clinton in more than one case, what started as a humanitarian intervention by donors later led to full-scale peacekeeping interventions—for example, Somalia, Kosovo, and Bosnia. Somalia taught the United States a lesson. In the end, NGOs, UN peacekeepers, and many journalists, with more than a little shrillness, invested heavily in the idea that the developing world at the end of the Cold War would be one of violence and chaos. The neglect of the crises in Rwanda, the Congo, Sierra Leone, Haiti, and Liberia followed.

The Clinton administration hesitated about peacekeeping because it feared being bogged down as in Vietnam, which until Iraq was the classic example of an intervention feared by American presidents. The lessons of foreign policy crises, of course, are hard to learn because each case is different. As Secretary Albright noted, "Tragically, the lessons we thought we had just learned in Somalia simply did not apply in Rwanda." Each country, she went on, "has its own history, culture, and language; [and] its own pantheon of heroes and adversaries."[98]

Clinton was a cutback president in foreign aid as in domestic policy—in part at least forced by Congress. In 1993, USAID announced that twenty-one missions serving thirty-five countries and territories would be phased out over three years as part of a series of program cutbacks.[99] Domestically, foreign aid was under attack throughout the Clinton administration. Well into Clinton's first term, *New York Times* reported

> Secretary of State Warren Christopher warned . . . of "a new generation of isolationism" emerging in Congress and said the State Department could not sustain more budget cuts without seriously undercutting American foreign policy around the world. . . . Mr. Christopher said a steady decline in foreign-affairs spending had already forced the United States to close consulates and even embassies and to shortchange efforts in some parts of the world in order to address immediate crises in others.[100]

Clinton seemed to support multilateralism. USAID quickly aligned its objectives with the UN, World Bank, and other international organizations and pledged to use future aid flows to promote democracy and sustainable development in the underdeveloped world. Although the administration had made humanitarian intervention a centerpiece of its foreign policy promises, the United States often did a poor job of delivering emergency aid to those in need.[101] Clinton argued that foreign aid needed a second chance.[102]

The Clinton administration did expand foreign assistance to Eastern Europe and the former Soviet Union, as the concept of a transitional country developed; however, the Eastern Europe and the Eurasian situation appeared

> to reflect long-brewing resentment over the presence of a U.S. aid program initially designed to help developing countries [in Africa and Asia]. While many communities across this vast country welcome the Peace Corps volunteers, some officials grumble that Russia is treated as if it were simply another impoverished Third World backwater and that the American volunteers are ill-prepared for their assignments in this former superpower.[103]

Two developments illustrated the vulnerability of Clinton's foreign aid policy in his second term. First, Clinton wanted return to the practice known as *aid tying*, where the United States would give development aid to poor countries only on the condition that they use the assistance to purchase American goods and services. Second, "[a] day after Mr. Clinton presented a budget that included a modest increase in spending on foreign aid, [the new Secretary of State Madeline Albright] also argued that after four years of a declining foreign-affairs budget, the United States was 'steadily and unilaterally disarming ourselves'"[104] from a foreign and foreign aid policy perspective.

By 1997, former Soviet bloc countries came back to haunt policymakers. On May 20, 1997, USAID suspended a $14 million contract with Harvard University's Institute for International Development (HIID). Money was to aid financial-market development in Russia. According to the *New York Times*, "The agency suspended the grants, the last part of a $57 million contract . . . after an investigation uncovered what the officials described as evidence that the advisers, Andrei Shleifer and Jonathan Hay, had misused the money."[105]

Privatization and democratization were somewhat naively welcomed by Western policymakers and the public alike as key components of success attained by Russia during the 1990s. As a result, according to Eugene Rumer, "Advisers funded by USAID were deployed throughout key Russian government agencies, while NGOs funded by USAID offered democracy-building advice to political parties and local governments."[106] The closeness of US cooperation to the scandals that followed assured the United States would be identified in Russia with corruption, inefficiency, and economic decline.

Foreign Aid Spending and the End of the Cold War

Despite declining amounts of aid, pressures to spend rather than ration resources did not impart to LDCs a sense of scarcity about the supply and management of donor funds. From the perspective of the donor program manager, the rule is, move the money. By 1990, the scarcity was real, however, and "cutbacks [in US foreign aid] would involve an embarrassing inability by the administration to make good its foreign aid pledges, many of them to countries where the United States has important base rights" or lingering Cold War obligations.[107]

In 1991, as Congress was reluctant to approve a comprehensive aid package, US lawmakers once again allowed most projects to be financed with repeated short-term appropriations and continuing resolutions, a pattern that would continue over the next decade.[108] The foreign aid budget, at about $10 billion, had not been increased for a decade. As a percentage of the overall economy, it was at its lowest point since World War II.[109]

By the early 1990s, as a result of donor fatigue in the United States and a number of other OECD counties, donors found it very difficult to respond to disasters.[110] This was particularly true of a natural and incremental disaster like the HIV/AIDS crisis. "This [was] a very big moment for HIV/AIDS and foreign aid," said J. Stephen Morrison, director of the Africa Program at the Center for Strategic and International Studies and a State Department official under President Clinton.[111] Under both Clinton and George W. Bush, however, foreign aid failed to fully address the HIV/AIDS crisis—though the Bush administration dramatically increased funding to combat HIV/AIDs through his President's Emergency Plan for AIDS Relief (PEPFAR).

US spending patterns continued apace through the 1990s. In 1992, with USAID foreign aid funding running out, Congress again voted to extend the current level of spending through the end of the fiscal year.[112] In April 1992, President George H. W. Bush "signed into law a stopgap six-month extension of US foreign aid that include[ed] money for United Nations peacekeeping and potential aid for the former Soviet Union."[113] In 1994, bilateral assistance exclusive of the security-based Economic Support Fund was $2.5 billion less than the 1966 sustainable figure.

Financially, Clinton operated on continuing resolutions in foreign aid for most of his two terms. There was nothing unusual about not passing the bill to authorize foreign aid. In 1994, Congress had not approved a foreign aid bill since 1985, though it went on to pass less conspicuous continuing resolutions and appropriations bills to spend aid money in any event.

By 1995, in absolute terms though not as a percentage of GDP, foreign aid remained the largest in the world, and it had "produced a large and complex institutional framework."[114] The result was a bureaucratic tangle. Under Clinton, USAID depended almost entirely on a variety of intermediaries, contractors, NGOs, or (though decreasingly) universities to deliver technical assistance and training.

Throughout the 1990s, foreign aid spending reflected levels of foreign affairs spending characteristic of the early post–Cold War period, and there was special attention given to famine and other humanitarian conditions in a number of African and Central American countries. Foreign aid spending often distorted priorities in LDCs. Martin Wolf said:

> What you see is not what you get. It is impossible to find a way around the obstacles created by a poor environment through targeted assistance to high-priority areas. Money is fungible: a government can offset aid by adjustments in where it spends its own money. Aid — including debt relief — always finances the

marginal priorities of the government, be these palaces, prisons or primary schools (or tax cuts, for that matter).[115]

Some critics argued that the "downward trend in US development assistance appropriations should be reversed"[116] because the US decline in spending set the trend in other developed states. For example, as Michael Peel pointed out in 1995, the "21 members of the OECD gave an average of 0.27 per cent of GNP, down from 0.34 per cent in 1990."[117] During the past twenty years, and taking into account growth of the economies of the advanced democracies and the depreciation in the value of money because of inflation, the more developed nations had fallen further and further short of their defined aid target of 1 percent of GNP.[118]

Increasing bureaucratization aid and the drop in foreign aid and technical assistance during the past thirty years has meant that even if US foreign aid were 100 percent effective, it would not promote sustainability. In 1996, USAID spending accounted for only 0.27 percent of GDP. The United States was at the bottom of OECD members in terms of spending, and the 1996 statistics stood at the lowest level recorded since comparable statistics began in 1950.[119]

During the Clinton administration, consolidation of foreign policy and foreign aid agency was a goal of the Republican-controlled Senate. In the late 1990s, Senator Jesse Helms "proposed abolishing USAID and transferring its $7 billion in annual aid to a quasi-governmental foundation that would deliver grants to private relief groups."[120] While USAID was not abolished, in 1997, the Clinton administration, acting on the basis of congressional mandates, reorganized foreign affairs structures with the State Department and clumsily incorporated the US Information Agency into State, which assumed closer responsibility for USAID's budget. This reorganization presaged further integration of USAID into State in 2006.

Despite increasing criticism of foreign aid, on February 12, 1996, Clinton signed the FY1996 Foreign Assistance Appropriations Act (P.L. 104–107). The foreign aid allocation in 1996–1997 provided $12.1 billion for foreign assistance programs and operations. That was "18 percent below the administration's FY 1996 request of $14.8 billion and 11 percent below the FY 1995 enacted level of $13.6 billion."[121] Policymakers fretted over the downward spiral of their budgets and lack of results. Many began seriously rethinking their efforts since the halcyon days of the development aid era began in the 1960s.[122]

In 1997, with an operating expense request level of $495 million, USAID had $60 million less for operations in FY97 than it had in FY96. The years 1998–1999 were a turning point of sorts because after "years of decline, rich governments [including the US] spent 9% more on aid in 1998 than in the year before."[123] By 2000, concessional aid transfers involved more than $50 billion annually. It represented, however, a fraction of what was needed for sustainability, and "most aid packages were [still] tied to the procurement [of] U.S. goods and services."[124]

By 1999, foreign aid, which amounted to much less than 1 percent of the federal budget, had been in freefall for fifteen years. In that year, Congress authorized some $13.5 billion in expenditures for overseas assistance, an amount that remained relatively stable through September 11. In 2002, USAID funding declined, and the $10 billion aid budget remained the lowest among rich nations as a percentage of the total economy (though it would increase dramatically after that time). Nor was there any agreement to devote any major new funding to international debt reduction efforts in LDCs beyond covering $1 billion in shortfalls in the debt management current program.[125]

Haggling over the foreign aid budget is a congressional tradition and pastime; however, as the millennium approached, what was at stake to aid advocates "was the fate of the sole superpower's $13 billion foreign assistance budget for 1998. All congressional staff could do was to bet on how long the haggling would take before a foreign aid bill was passed."[126] By 2000, the US "ranked dead last among the advanced nations in the share of income that it allocated to foreign aid."[127] There was little support for foreign aid in Congress. Throughout the decade, foreign policy and foreign aid institutions had faced attack from their congressional foes. In one case involving USAID, Congress "recommended that the agency limit overhead costs to 15 per cent of the total amount an organization receives from the U.S.I.A. for a program."[128] The information agency was later abolished. Only September 11 staved off a similar fate for USAID.

During Clinton's presidency, the overall foreign aid budget declined from $14.1 billion in 1993 when he took office to $13.5 billion in 1999. The decline was all the more dramatic after factoring in inflation. The aid budget would decline even further in the first two years of the George W. Bush administration. USAID support staff was cut during the same period by about a third, down to 7,000, including both foreign service and domestic civil servants.

Conclusion

Throughout the 1990s under structural adjustment, the United States and other donors increased support to promote in their bilateral programs politically sensitive, restrictive, and intrusive policies and actions that would encourage conservation measures, such as energy efficiency, renewable energy, and forest management. Such action often advocated policies that would not be acceptable to the United States and other countries at home. As Severine Rugumamu has noted, "the institutional and organizational capacities of the recipient states [came to be] considered as critical intervening variables in explaining the aid relationship."[129]

Throughout much of the developing world there existed a continuous tension between the humanitarian functions of foreign aid in trying to improve social welfare conditions in LDCs and the narrower imperatives of self-interest. In 2000, neither concern appeared to be important to the American public. During the 2000 presidential campaign, foreign aid had reached its nadir. Candidate George W. Bush would attack nation-building and overseas assistance. Bush wanted to focus on domestic affairs.

Overall, as the millennium approached, interest in foreign aid waned. Except for a few bankrupt African countries, USAID no longer represented a significant transfer of resources to LDCs relative to the size of their economy. By the end of the twentieth century, the path to apathy about international development was clear. Despite the acceptance of structural adjustment by many LDCs, by the mid-1990s, foreign assistance levels continued to plunge.

September 11, however, would change all of that: policymakers became concerned that impoverished people fed by fundamentalist religions and living in failed states would offer sanctuary and become a breeding ground for terrorists. As a result, foreign aid budgets would surge with allocations, more than doubling in ten years. We will turn to those developments in the next two chapters.

Notes

1. H. Field Haviland, "Foreign Aid and the Policy Process: 1957," *American Political Science Review,* 52, no. 33 (September 1958), p. 700.

2. Staff Report, *The Foreign Aid Programs and the United States Economy,* 1948–1957 (Washington, DC: National Planning Association, May 1958), p. 37.

3. Stephen Browne, *Beyond Aid: From Patronage to Partnership* (Aldershot, UK: Ashgate Publishing, 1999), p. 93.

4. Ralph Linton, "An Anthropologist Views Point Four," *American Perspective,* iv, no. 2 (Spring 1950), p. 119. Article, pp. 113–121. See p. 119 for quotes.

5. Elizabeth Becker, "A New Villain in Free Trade: The Farmer on the Dole," *New York Times* (August 25, 2002), p. A10.

6. Interview, USAID official, Kinshasa, Zaire, April 1989. Author's Research Diary (April 28, 1989).